

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 TRSE-00 CIAE-00 DODE-00 NSAE-00 NSCE-00

SSO-00 USIE-00 INRE-00 PA-03 PRS-01 SPC-03 AID-20

EB-11 NSC-10 RSC-01 CIEP-02 SS-15 STR-08 OMB-01

CEA-02 COME-00 FRB-02 INR-10 XMB-07 OPIC-12 LAB-06

SIL-01 SCI-06 AECE-00 AEC-11 AGR-20 OPR-02 L-03 H-03

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FM AMEMBASSY MOSCOW

TO AMEMBASSY BELGRADE IMMEDIATE

INFO SECSTATE WASHDC IMMEDIATE 2610

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REF: BELGRADE4273

1. PLEASE PASS FOLLOWING SUGGESTED REPLIES TO QUESTIONS FROM  
A YUGOSLAV ECONOMIC DAILY FROM SECRETARY SHULTZ:

A. FIRST OF ALL WE WISH TO NOTE THAT U.S. YUGOSLAV BILATERAL ECONOMIC  
RELATIONS HAVE NEVER BEEN BETTER. THERE HAVE BEEN SOLID ACHIEVEMENTS  
THIS YEAR FOR WHICH OUR TWO PEOPLES CAN BE JUSTLY PROUD. WE LOOK  
TO THE FUTURE WITH CONFIDENCE AND BELIEVE OUR RELATIONS WILL  
CONTINUE TO EXPAND AND PROSPER.

WE WOULD AGREE THAT TRADE EXCHANGE BETWEEN YUGOSLAVIA AND THE  
U.S. HAS DEVELOPED QUITE FAVORABLY SO FAR THIS YEAR - PARTICULARLY  
YUGOSLAV EXPORTS. IN THE FIRST HALF OF 1973 YUGOSLAV EXPORTS TO  
THE U.S. INCREASED 21 PERCENT COMPARED WITH A RISE IN YUGOSLAV  
WORLD-WIDE EXPORTS OF 13 PERCENT. FOR THE SAME PERIOD, YUGOSLAV  
IMPORTS FROM THE U.S. ROSE BY TWENTY PERCENT WHEREASTOTAL  
YUGOSLAV IMPORTS ROSE 38 PERCENT. THUS, THE U.S. SHARE IN  
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YUGOSLAV TOTAL TRADE DECLINED FROM 6.2 PERCENT TO 5.6.

THE CURRENT SHARE OF U.S. PARTICIPATION IN YUGOSLAVIA'S TOTAL TRADE CLEARLY DEMONSTRATES SCOPE FOR CONSIDERABLE EXPANSION. A NUMBER OF MAJOR PROJECTS ARE UNDER CONSIDERATION WHICH PROVIDE OPPORTUNITIES FOR U.S. EXPORTS. SPECIFIC EXAMPLES INCLUDE THE KRSKO NUCLEAR POWER PROJECT. THE PROGRAM FOR EXPANSION OF THE NATIONAL POWER GRID SYSTEM, MODERNIZATION OF PORT FACILITIES WITH EMPHASIS ON CONTAINERIZATION (WHERE THE UNITED STATES LEADS THE WORLD) AND CONSTRUCTION OF THE NAFTAGAS AND PAN-ANDRIA PIPELINES. U.S. EXPORTS ARE COMPETITIVE IN OTHER GENERAL AREAS WHERE LARGE SCALE EXPANSION IS PLANNED - NEW HYDROELECTRIC AND THERMAL POWER PLANTS, EXPANSION OF VARIOUS FERROUS METALLURGY THROUGH THE CONSTRUCTION OF NEW COKING AND STEEL PLANTS, AND NON-FERROUS METALLURGY, PARTICULARLY THROUGH THE CONSTRUCTION OF NEW COPPER AND ALUMINUM FACILITIES. IN AGRICULTURE, WHERE YOU ALSO PLAN MODERNIZATION, THE U.S. AS IS WELL KNOWN, LEADS THE WORLD IN PRODUCTIVITY AND INNOVATION. WITH U.S. EXPORTS MUCH MORE COMPETITIVE DUE TO CURRENCY REALIGNMENTS, U.S. AND YUGOSLAV TRADERS MUST NOW BREAK OUT OF OLD-ESTABLISHED TRADING CHANNELS AND SEEK MORE BENEFICIAL DEALS IN TERMS OF PRICE AND TECHNOLOGY. WE HAVE BEEN PLEASED TO NOTE THE STEPS TAKEN BY YUGOSLAV GOVERNMENT TO LIBERALIZE IMPORTS ON CAPITAL EQUIPMENT WHICH SHOULD BE HELPFUL FOR TRADE EXPANSION AND ECONOMIC GROWTH.

THE U.S. IS MAKING EVERY EFFORT TO IMPROVE ITS TRADE AND PROMOTION PROGRAMS IN YUGOSLAVIA INCLUDING TRADE MISSIONS TO THE U.S. TO STUDY OUR MARKET, MARKETING TECHNIQUES AND PROCEDURES.

PRESIDENT NIXON'S TRADE REFORM BILL NOW BEFORE CONGRESS CONTAINS PROVISIONS WHICH WOULD ENABLE THE UNITED STATES TO IMPLEMENT GENERALIZED PREFERENCES FOR DEVELOPING COUNTRIES WHICH MEET CERTAIN CRITERIA. IF THIS PROVISION IS ADOPTED BY CONGRESS SUBSTANTIALLY AS RECOMMENDED TO IT, IT WILL ALLOW BENEFICIARY COUNTRIES TO DERIVE SIGNIFICANT BENEFITS FROM EXPORTS OF MANUFACTURERS,

SEMI-MANUFACTURERS, AND SOME OTHER PRODUCTS TO THE UNITED STATES. ONCE THE ACT IS ADOPTED, YUGOSLAVIA SHOULD BE ABLE TO BECOME A BENEFICIARY COUNTRY AND PARTICIPATE IN THOSE BENEFITS.

B. THE IDEA OF ESTABLISHING A YUGOSLAV-AMERICAN CHAMBER OF LIMITED OFFICIAL USE

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COMMERCE IN BELGRADE, AND AN AMERICAN-YUGOSLAV CHAMBER OF COMMERCE IN THE U.S. EVOLVED OUT OF VICE PREMIER SIROTKOVIC'S VISIT TO WASHINGTON EARLY THIS YEAR. THE U.S. GOVERNMENT WELCOMES EXPLORATION OF THE POSSIBILITY OF SUCH CHAMBER TO BE FOUNDED BY OUR TRADING ORGANIZATIONS. ON THE U.S. SIDE A CHAMBER WOULD FAIL WHOLLY WITHIN THE PRIVATE SECTION.

C. MODERN U.S. TECHNOLOGY IS BEING TRANSFERRED IN A VARIETY

OF WAYS. PRINCIPAL INSTRUMENTS OF TRANSFER ARE TRADE AND LICENSING AGREEMENTS, JOINT VENTURES, CO-PRODUCTION, SCIENTIFIC AND TECHNOLOGICAL RESEARCH. YUGOSLAV ENTERPRISES HAVE LICENSING AGREEMENTS WITH APPROXIMATELY 220 FIRMS COVERING ALL SECTORS OF ECONOMY. JOINT VENTURE LEGISLATION IN YUGOSLAVIA IS RELATIVELY NEW AND THE U.S.-YUGOSLAV AGREEMENT PROVIDING INVESTMENT GUARANTEES DID NOT GO INTO EFFECT UNTIL MAY 1973. NEVERTHELESS, THE NUMBER OF JOINT VENTURE AGREEMENTS CONCLUDED THIS YEAR CAPITAL INVOLVED HAS INCREASED SIX TIMES. THE U.S.-YUGOSLAV PROGRAM FOR SCIENTIFIC AND TECHNOLOGICAL COOPERATION COVERS 200 PROJECTS AND LAST YEAR SOME 300 AMERICAN SCIENTISTS CAME TO YUGOSLAVIA IN CONNECTION WITH THESE PROJECTS. THE RECENT AGREEMENT WHICH ESTABLISHED A US-YUGOSLAV JOINT BOARD AND PROVIDING FOR JOINT FUNDING WILL PUT THESE PROGRAMS ON A LONG-TERM INSTITUTION-TO-INSTITUTION BASIS AND FACILITATE TECHNOLOGY TRANSFER.

A SIGNIFICANT PORTION OF TECHNOLOGY REQUIRED IN THE DEVELOPMENT PROCESS IS, OF COURSE, EMBODIED IN IMPORTED CAPITAL EQUIPMENT. TRANSFER IS EFFECTIVE WHEN U.S. COMPANIES ARE GIVEN THE OPPORTUNITY TO PARTICIPATE IN INFRASTRUCTURE PROJECTS SUCH AS NUCLEAR POWER PLANTS WHERE U.S. TECHNOLOGY IS CLEARLY SUPERIOR.

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

USIE-00 INRE-00 PA-03 PRS-01 SPC-03 AID-20 EB-11

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WE, OF COURSE, AGREE ENTIRELY THAT MUCH MORE CAN BE DONE IN THE AREA OF TECHNOLOGY TRANSFER. THE U.S. GOVERNMENT WILL CONTINUE ITS OWN PROGRAMS TO HELP ACHIEVE THIS RESULT, INCLUDING TRADE MISSIONS, TRADE FAIRS, AND SCIENTIFIC AND TECHNOLOGICAL RESEARCH PROGRAMS.

D. WE AGREE WITH YOU THAT THE FULL POTENTIAL FOR U.S. TOURISM IN YUGOSLAVIA IS STILL FAR FROM BEING ACHIEVED. THE AIR CHARTER AGREEMENT WHICH THE TWO GOVERNMENTS SIGNED ON SEPTEMBER 27 SHOULD HELP IN THIS RESPECT. IN THE MAIN, YUGOSLAVIA SHOULD DO A GREAT DEAL MORE ADVERTISING AND TOURIST PROMOTION IN THE UNITED STATES. PRICES OF COURSE, ARE A PRINCIPAL FACTOR IN TOURIST CHOICE. IF YUGOSLAVIA CAN MAINTAIN COMPETITIVE PRICES, AMERICAN TOURIST TRAFFIC WILL INCREASE. WITH CURRENCY REALIGNMENTS WE SUSPECT THAT THE AMERICAN TOURIST WILL BECOME MORE OF A BARGAIN HUNTER. FINALLY TO INSURE RETURN OF THE INITIAL AMERICAN TOURIST, YUGOSLAVIA SHOULD CONSIDER MORE INVESTMENTS IN THE KINDS OF FACILITIES THAT AMERICAN TOURISTS LOOK FOR WHEN THEY GO ABROAD -- LIMITED OFFICIAL USE

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SWIMMING POOLS, GOLF COURSES, RESTAURANTS AND THE LIKE. WE UNDERSTAND THAT THE DEVELOPMENT POTENTIAL FOR TOURISM IN YUGOSLAVIA IS ON THE ORDER OF \$2.4. BILLION ANNUALLY. THIS INCOME CAN BE OF SUBSTANTIAL ASSISTANCE TO YOUR INDUSTRIAL AND AGRICULTURAL DEVELOPMENT PLANS.

E. AS STATED AT THE TOKYO MINISTERIAL MEETING, THE UNITED STATES SUPPORTS EFFORTS TO GIVE THE LESS DEVELOPED COUNTRIES ACCESS TO FOREIGN MARKETS. WE BELIEVE THAT THE NEW ROUND OF TRADE NEGOTIATIONS SHOULD PROVIDE MAJOR IMPROVEMENTS FOR THE DEVELOPING WORLD, INCLUDING SPECIAL MEASURES AND REDUCTION IN NON-TARIFF BARRIERS. TRADE LEGISLATION NOW PENDING IN THE U.S. CONGRESS CLEARLY DEMONSTRATES OUR COMMITMENT TO A SYSTEM OF GENERALIZED TARIFF PREFERENCES, CREATING NEW EXPORT OPPORTUNITIES FOR LDCS, RAISING THEIR FOREIGN EARNINGS, AND PERMITTING THEM TO FINANCE HIGHER LEVELS OF IMPORTS ESSENTIAL FOR RAPID ECONOMIC GROWTH.

THE UNITED STATES WILL CONTINUE TO BEAR ITS FAIR SHARE OF BILATERAL AND MULTILATERAL AID FOR THE DEVELOPING COUNTRIES. THAT DEVELOPMENT AID CAN DO. TOTAL DEVELOPMENT AID PROVIDED BY ALL OECD COUNTRIES REPRESENTS ONLY 2 PERCENT OF GNP OF DEVELOPING COUNTRIES.

TRADE AND AID NEED TO GO HAND-IN-HAND WITH PRIVATE INVESTMENT. INVESTMENT PLANNING THAT IDENTIFIES THE MOST EFFECTIVE AND PRODUCTIVE ECONOMIC ACTIVITIES IN LDCS AND BRINGS IN THE CAPITAL TO HELP DEVELOP THESE ACTIVITIES CAN CONTRIBUTE VERY

SIGNIFICANTLY TO THE COUNTRIES ECONOMIC DEVELOPMENT EFFORT.

WE CONTINUE TO URGE THE LESS DEVELOPED COUNTRIES TO PLAN  
A CONSTRUCTIVE ROLE IN THE HIGHLY IMPORTANT TRADE NEGOTIATION NOW  
COMMENCING. WE ARE CONFIDENT THAT YUGOSLAVIA WILL EXERCISE ITS  
INFLUENCE TOWARD CREATION OF A NEW WORLD ECONOMIC STRUCTURE  
PROVIDING TO ALL COUNTRIES THE OPPORTUNITY FOR STABLE GROWTH  
AND PROSPERITY.

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